Accountability Report

2015–2016

Nova Scotia Fisheries and Aquaculture Loan Board

NOVA SCOTIA

NOVA SCOTIA FISHERIES AND AQUACULTURE LOAN BOARD

ANNUAL ACCOUNTABILITY REPORT

FISCAL YEAR 2015-2016

NOVA SCOTIA FISHERIES AND AQUACULTURE LOAN BOARD

ANNUAL ACCOUNTABILITY REPORT

FISCAL YEAR 2015-16

TABLE OF CONTENTS

Accountability Statement 3

Chief Executive Officer's Report 5

Overview 6

Core Priority Areas Progress and Accomplishments 7

Financial Results 8

Performance Measures 9

Attachment - Nova Scotia Fisheries & Aquaculture Loan Board Financial Statements

ACCOUNTABILITY STATEMENT

The Nova Scotia Department of Fisheries and Aquaculture has the honour of presenting the 79th Annual Report of Nova Scotia Fisheries and Aquaculture Loan Board for the fiscal year ending March 31, 2016.

This report incorporates accountability reporting of the Nova Scotia Fisheries and Aquaculture Loan Board for the year ended March 31, 2016 and is prepared pursuant to Section 41 of the *Fisheries and Coastal Resources Act, 1996*, as well as the *Provincial Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Board's Business Plan information for the fiscal year 2015-2016. The reporting of the Nova Scotia Fisheries and Aquaculture Loan Board outcomes necessarily includes estimates, judgements and opinions by Loan Board management.

The Nova Scotia Department of Fisheries and Aquaculture acknowledges that this accountability report is the responsibility of management and the Nova Scotia Fisheries and Aquaculture Loan Board. The report is, to the best extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Nova Scotia Fisheries and Aquaculture Loan Board 2015-2016 Business Plan.

Mr. Keith Colwell
Minister, Department of Fisheries and Aquaculture

Peter Corey
Acting Chair of the Board

Greg Cox
Director, Agriculture and Fisheries Crown Agencies

BOARD MEMBERS as at March 31, 2016

Mr. Peter Corey	Vice Chair/Acting Chair, Board
Mr. Patrica Rhynold	Member
Mr. Nathan Boudreau	Member and Audit Committee Chair
Mr. Claude Poitier	Member and Audit Committee
Denny Morrow	Member

PRINCIPAL OFFICERS AND STAFF as at March 31, 2016

Greg Cox	Director
William Laurence, Department of Justice	Solicitor to Board
PricewaterhouseCoopers LLP	Auditor
Matthew Reeves	Risk Manager
Maria McCurdy	Credit Manager
Neil Pardy	Senior Loans Officer
Glenda Conley	Loans Officer
Colleen Frizzell	Loans Officer
Tracy Hart	Loans Administrator
Jackie Putnam	Administrative Assistant
Vernon Shea	Vessel Inspector
Bernie Stockley	Vessel Inspector (contract)
Philip Green	Manager of Finance
Susan Archibald	Financial Services Officer

Directors Report

It is a pleasure to present this Accountability Report on the 79th year of service of the Nova Scotia Fisheries and Aquaculture Loan Board to the fishers of this Province. Fiscal 2016 was a very busy year with a record number of vessels under construction and with a new generation of fishers purchasing licences. The Board of Directors and Staff have been working on a number of fronts to prepare the Board for another 80 years of service with new products.

The Aquaculture sector is growing with significant investment in many finfish and shellfish initiatives. The Board is developing new products to meet the needs of this sector of the fishery. With the global production of farmed fish now greater than that of farmed beef, it is clear that one of the greatest sources of protein on the planet will come from aquaculture. Nova Scotia wishes to be on the front lines of many of these aquaculture developments and needs to have the lending tools to support initiatives as they present themselves.

Greg Cox
Director Crown Agencies
Nova Scotia Fisheries and Aquaculture Loan Board

BOARD OPERATION OVERVIEW

During its 79th year of operation, the Board of Directors met on six occasions. There were 103 requests approved for funding during the 2015-2016 fiscal year. A total of 764 loans to 614 clients were in effect as of March 31, 2016.

Interest rates at year-end were: 1-5 years 3.48%, 6-10 years 4.44%, 11-15 years 5.14%, and 16-20 years 5.67%

There were 101 loan applications approved during the year, with total funds advanced of $21.1 million. Principal repayments were $29.1 million. Interest rates continued to be low and credit availability from other lenders remained strong. Loan advances were below the maximum $30 million authorized. Long term lending appears to have been met and the Loans for Licences program, implemented in 2009, continued to be of significant interest and benefit.

Fishing Vessel Loans

The Board provided loans for the purchase of new and used fishing vessels, as well as for vessel modifications and upgrades. A total of 49 fishing vessel loans totaling $11.5 million were

approved under this program in 2015-2016. At year-end, vessel loans of 46.6 million accounted for 50% of the Boards impaired loans.

While lending and credit staff were responsible for administrative detail with respect to receiving applications, preparing applications, disbursing funds and maintaining loans records, the Board's vessel inspectors were responsible for ensuring adequate vessel appraisals are conducted and documented.

Fishing Licence Loans
The Board provided loans for the purchase of fishing licences, which supports succession and diversification within the fish harvesting sector. A total of 10 fishing licence loans accounted $53.5 million in loan principal and for 35% of impaired loans.

Aquaculture Loans
The Board provided loans to aquaculture operators for the purchase of seed stock, gear and equipment. Three aquaculture loans were approved under this program in 2015-2016. At year-end, aquaculture loans accounted for $1.8 million in loan principal and 11% of the Board's impaired loans.

Other Loans
In addition to the above, a small portion of the loan portfolio was for engine replacement or vessel conversion or modification.

Notes:

Write offs
Board staff work with and guide borrowers experiencing economic hardship in an effort to facilitate recovery and minimize potential losses. Every possible recovery effort is made prior to submitting any request to write off unrecoverable loan balances. Only one account was written off during 2015 – 2016. Total write off was $2,349 principal plus $26 interest totalling $2,375.

RESULT (Progress and Accomplishments)

Priority: Lending
Provide up to $25 million of new loan capital to the fisheries and aquaculture industry in the 2015-2016 fiscal year.

Result:
There were 101 loan applications approved during the year, with total funds advanced of $21.1 million. Principal repayments were $29.1 million with only $2,349 principal written off.

Interest rates continued to be low and credit availability from other lenders remained strong. Loan advances were below the maximum $30 million authorized. Long term lending needs appears to have been met and the Loans for Licenses program, implemented in 2009, continued to be of significant interest and benefit.

Priority: Risk Management

Lending will be directed toward viable enterprises and projects providing acceptable security to support the loan.

Result:

A Risk Manager position was permanently added to the staff complement in 2013-2014. This significantly strengthened risk assessment processes and reduced exposure. Every request for funding received was assessed for credit risk and worthiness based on common industry standards and measures. All loans provided were appropriately and adequately secured to mitigate potential risk and exposure.

Priority: Confidential Credit Counseling

The board will provide credit counseling and follow-up for clients with repayment difficulties.

Result:

Lending staff and senior officials met with clients to discuss lending needs, to assist in establishing strategies to assist clients in improving their financial positions, and provided other financial counseling as required on a case-by-case basis and to groups.

Priority: Support for New Fishers and Aqua culturists

The board will provide advice and guidance to new entrants by working with other staff and programs of the department and by funding projects with viable business plans, but limited experience.

Result:

Opportunities to enter and diversify within the fisheries and aquaculture industry were facilitated with loans. Special incentives were available through several programs to those who qualified as new entrants.

Actual/Budget Comparison – Loan Operating

Description	2015-2016 Actual ($000)	2015-2016 Budget ($000)	Change
Interest revenue	6,983	7,800	(817)
Loan processing and other fees	247	164	83
Other recoveries	1,192		1,192
Total revenue	8,422	7,964	541
Interest expense	4,799	4,600	199
Bad debt expense	0	78	(78)
Operating expenses	824	738	86
Total expenses	5,623	5,416	207
Income before distribution to the General Revenue Fund of the Province	2,799	2,548	(251)
Distribution to the General Revenue Fund of the Province	(2,799)	(2,548)	251
Net Income	0	0	0

Measuring Our Performance

The following sections provide results for the performance measures identified in the Board's Business Plan for 2015-2016.

i) **New loan advances and approvals**

Target: Increase annual advances and approvals.
Result: The amount of loans advanced in 2015 – 2016 was $21.1 million, a decrease of $1.2 million (6%) from 2014 – 2015 advances of $22.3 million.

ii) **Change in loan portfolio**

Target: Annual increase in loan portfolio.
Result: The Board's loan portfolio was $103.9 million at March 31, 2016. This represented a decrease of $7.6 million (6.8%) from $111.5 million for the year ended March 31, 2015.

iii) **Average age of loan applicants (new measure in 2015 – 2016)**

Target: Maintain below 45.
Result: The average age of applicants in 2015 – 2016 was 45 years of age, up from 42 in 2014-2015.

iv) **Percentage of loan applicants aged 19 – 35 (new measure in 2015 – 2016)**

Target: Increase percentage of applications for this cohort annually.
Result: In 2015 – 2016, 25% of applications received were from the 19 – 35 age cohort, down from 34% in 2014-2015.

v) **Percentage of applicants applying as new entrants or new species**

Target: Increase the number of new entrants who successfully qualify for loan board financing.
Result: In 2015 – 2016, approximately 17% of applicants applied to one of these loan categories, down from 48% reported for 2014-2015.

vi) **Sound loan performance**

Target: Maintain the total percentage of principal in arrears below 5%.
Result: At March 31, 2016, this measure decreased to 2.2% from 2.7% on March 31, 2015. This represents significant and continued progress in this area. The amount of principal in arrears decreased from $3.0 million at March 31, 2015 to $2.4 million at March 31, 2016.

ADDITIONAL INDICATORS OF BOARD PERFORMANCE

Net Income measures the Board's efficiency and effectiveness in delivering developmental credit.

Target: **Maintain a significant positive net income, while implementing heightened assessment of risk to the Board's investments.**
Result: **The Board's net income in 2015 – 2016 was $2,799,000, an increase of $2,285,000 over 2014 – 2015 including $1.2 million of unusual recoveries.**

Nova Scotia Fisheries and Aquaculture Loan Board

Financial Statements
March 31, 2016
(in thousands of dollars)

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board of Directors. The Board of Directors reviews internal financial statements on a monthly basis and external audited financial statements yearly.

The external auditor, PricewaterhouseCoopers LLP, conducts an independent examination, in accordance with Canadian auditing standards, and expresses their opinion on the financial statements. The external auditor has full and free access to financial management of the Nova Scotia Fisheries and Aquaculture Loan Board and meets when required.

On behalf of the Nova Scotia Fisheries and Aquaculture Loan Board

Greg Cox, Director of Crown Agencies

July 15, 2016

pwc

July 15, 2016

Independent Auditor's Report

To the Members of the Legislative Assembly and to the Minister of Fisheries and Aquaculture

We have audited the accompanying financial statements of the **Nova Scotia Fisheries and Aquaculture Loan Board** (the "Loan Board"), which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, continuity of fund balance, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion the financial statements present fairly, in all material respects, the financial position of the Loan Board as at March 31, 2016, and its financial performance for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
Summit Place, 1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6
T: +1 902 491 7400, F: +1 902 422 1166

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Financial Position

As at March 31, 2016

(in thousands of dollars)

	2016 $	2015 $
Assets		
Financial assets		
Loans receivable, net (note 4)	102,478	108,677
Interest receivable, net	2,848	4,400
Due from the General Revenue Fund of the Province (note 5)	105,178	97,568
	210,504	210,645
Liabilities		
Current liabilities		
Applicants' funds on deposit (note 5)	219	222
Due to the General Revenue Fund of the Province	2,848	4,400
Fisheries and Aquaculture Development Fund	207,437	206,023
	210,504	210,645
Accumulated surplus	–	–

Commitments (note 6)

Approved by the Board of Directors

Director Director

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Operations and Accumulated Surplus

For the year ended March 31, 2016

(in thousands of dollars)

	2016 Budget $ (unaudited)	2016 Actual $	2015 Actual $
Revenues			
Interest on loans (note 4)	7,800	6,983	8,261
Loan processing and other fees	164	247	210
	7,964	7,230	8,471
Expenses			
Lending expenses (note 8)	5,416	4,132	7,623
Annual surplus before distribution to the General Revenue Fund of the Province	2,548	3,098	848
Distribution to the General Revenue Fund of the Province (note 10)	(2,548)	(3,098)	848
Annual and accumulated surplus – Beginning and end of year	–	–	–

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Continuity of Fund Balance

For the year ended March 31, 2016

(in thousands of dollars)

	2016 $	2015 $
Fisheries and Aquaculture Development Fund – Beginning of year	206,023	208,323
Less: Increase in allowance (recovery) for impaired loans (notes 4 (b) and 4 (c))	(1,414)	2,300
Fisheries and Aquaculture Development Fund – End of year	207,437	206,023
Comprised of:		
Loans receivable, net (note 4)	102,478	108,677
Loans authorized but not advanced (note 5)	9,173	10,970
Funds available for additional loans (note 5)	95,786	86,376
	207,437	206,023

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Cash Flows

For the year ended March 31, 2016

(in thousands of dollars)

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Annual surplus	–	–
Net charge (credits) to income not involving cash		
Decrease (increase) in interest receivable	(1,552)	361
Increase (decrease) in due to the General Revenue Fund of the Province - net	1,552	(361)
Increase in allowance for loan impairment	(1,414)	2,300
Increase (decrease) in Fisheries and Aquaculture Development Fund	1,414	(2,300)
	–	–
Financing activities		
Decrease (increase) in due from the General Revenue Fund of the Province - net	(6,196)	819
Decrease (increase) in loans receivable - net	6,199	(933)
Increase (decrease) in applicants' funds on deposit	(3)	114
	–	–
Net change in cash for the year	–	–
Cash – Beginning of year	–	–
Cash – End of year	–	–

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2016

(in thousands of dollars)

1 Nature of operations

Authority

The Nova Scotia Fisheries and Aquaculture Loan Board (the "Loan Board") was established pursuant to Section 34 of the Fisheries and Coastal Resources Act. The purpose of the Fisheries and Aquaculture Development Fund (the "Fund") is to finance the loans and guarantees of the Loan Board.

The objective and purpose of the Loan Board is to make loans and guarantees of loans to fishers, aquaculturists, companies, cooperatives, associations or other persons in order to encourage, sustain, improve and develop the fishing industry in the Province of Nova Scotia (the "Province").

As of March 31, 2016, the total principal in loans outstanding was limited by Order-in-Council to $225,000 less $17,563 in bad debts since the inception of the Fund. Maximum advances disbursed in any given year are established through the annual budgeting process, which requires approval of government. For the year ended March 31, 2016, maximum new advances were $30,000, of which $21,068 were advanced. The Loan Board received repayments of loan principal of $29,064 during the year.

Loans in excess of $1,000 and any loan write-offs, require approval by Governor in Council.

2 Capital management

As an agency of the Province, the Loan Board does not maintain its own capital. Operations are funded by capital contributions from the Province.

3 Significant accounting policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS").

The following significant accounting policies were used in preparation of these financial statements:

Revenue recognition

Revenues are recorded on the accrual basis. The main components of revenue are interest and various fees for loans and guarantees. Interest received on impaired loans is recognized in earnings only if there is no longer doubt as to the collectability of principal.

Expenses

Expenses are recorded on the accrual basis. Net expenses include recoveries which are directly related to the expenses and are not normally considered to be revenues.

(in thousands of dollars)

3 Significant accounting policies (continued)

Loans receivable

Loans receivable are recorded at the principal amount of loans outstanding less an allowance for loan impairment. Loans are classified as impaired when, loans are in arrears for four consecutive semi-annual or two annual payments or when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

Valuation allowance for loan impairment

The valuation allowance for loan impairment represents management's best estimate of losses due to impaired loans in the Loan Board's portfolio. The valuation allowance is determined based on management's identification and evaluation of the problem accounts and estimated losses that exist in the remaining portfolio. These judgments are influenced by the composition and quality of the portfolio, general economic conditions, and conditions affecting specific commodities, as well as the Loan Board policy to act as a patient lender, providing time for repayment where full future repayment appears reasonable.

Loan write-offs must be approved by the Governor in Council.

Valuation allowances are made for probable losses on certain loans and loan guarantees, are recorded in the statement of operations and accumulated surplus as bad debt expense. Bad debt expense also reduces the balance of the Fisheries and Aquaculture Development Fund. Recoveries of bad debts do not increase the Fund's balance.

The Loan Board records a specific valuation allowance based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net recoverable value of their underlying security.

In addition, the Loan Board calculates a general valuation allowance in the specific reserve. This is an estimate of incurred but unidentifiable losses based on a review of historic loan write-offs on an industry sector basis.

Management estimates

PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, as described further in note 4, these estimates are subject to measurement uncertainty and any changes in those estimates could have an impact on the results of the future period financial statements.

(in thousands of dollars)

3 Significant accounting policies (continued)

Financial instruments

The Loan Board has adopted Handbook Section PS3450 "Financial Instruments" and is required to designate its financial instruments into one of the following two categories: (i) fair value; or (ii) cost or amortized cost. All of the Loan Board's financial instruments are measured at amortized cost using the effective interest method.

The Loan Board's financial instruments consist of loans receivable, interest receivable, applicants' funds on deposit and amounts due to/from the General Revenue Fund of the Province. Transaction costs relating to loans are recorded as part of the total amount outstanding. The carry value of loans approximates its net recoverable value. The Loan Board holds all loans to maturity.

Remeasurement gains and losses

Under PSAS, the Loan Board is required to present a statement of remeasurement of gains and losses. As the Loan Board has no remeasurement gains and losses, a statement of remeasurement gains and losses has not been presented.

4 Loans receivable

a) Loans receivable, net

The following tables set out the scheduled maturities of the financial assets as at March 31, 2016, together with the weighted-average interest rates being earned on the financial assets.

				2016	2015
	Under 1 year $	1 – 5 years $	Over 5 years $	Total $	Total $
Total performing loans	6,923	32,163	61,746	100,832	103,914
Weighted-average interest rate	6.6%	6.5%	6.4%		
Add: Principal receivable on impaired loans				3,084	7,617
Total principal				103,916	111,531
Less: Provision for loan impairment				1,438	2,854
Net loans receivable				102,478	108,677

Interest on performing loans is as follows:

Interest on loans for the year	$6,983	$8,261
Average effective interest rate on performing loans	6.48%	6.67%

(in thousands of dollars)

4 Loans receivable (continued)

b) Allowance for impaired loans

Loans are considered impaired when there has been deterioration in credit quality to the extent the Loan Board no longer has reasonable assurance of timely collection of the full amount of principal and interest. The allowance calculated is comprised of two components, the specific allowance for individually identified impaired loans and a general allowance for impaired loans.

The specific allowance for individually identified loans was established based upon a review of a large sample of impaired loans. Primary factors considered in estimating the specific allowance on individual loans were the estimated net realizable value of security pledged and the financial condition of the borrower and/or, where applicable, guarantors.

The general allowance for impaired loans has been determined by management's best estimate of the loss that is likely to be experienced on impaired loans that were not known to be impaired at the year-end. The general allowance was calculated based on management's judgment.

	2016		2015	
	Impaired loans $	Allowance for impairment $	Impaired loans $	Allowance for impairment $
Specific allowance	3,084	1,553	7,617	1,819
General allowance	–	243	–	1,035
	3,084	1,796	7,617	2,854

Significant judgment was exercised by management in estimating the allowance for impaired loans. As such, actual losses that occurred on loans outstanding as at March 31, 2016, will differ from these estimates and the difference could be material. The actual realization of impaired loans could be significantly different from the estimated amounts.

c) Continuity of allowance for impaired loans

	2016 $	2015 $
Allowance – Beginning of year	2,854	2,390
Add: Current year provision (recovery)	(1,055)	2,300
Less: Loans written off	3	1,836
Allowance – End of year	1,796	2,854
Valuation allowance on principal	1,438	2,854
Valuation allowance on interest	358	–
	1,796	2,854

(in thousands of dollars)

4 Loans receivable (continued)

d) Loans receivable past due but not impaired

A loan is considered past due when a counter-party has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because: (i) they have not missed four consecutive semi-annual or two annual payments; or (ii) in management's opinion, there is reasonable assurance of the timely collection of the full amount of principal and interest. Loans that are past due but not impaired are as follows:

	16 to 30 days $	31 to 60 days $	61 to 90 days $	91 days or more $	Total $
2016	607	2,003	1,121	8,099	11,830
2015	364	2,575	2,956	10,638	16,533

5 Due from the General Revenue Fund of the Province

The portion of the Fund that has not been advanced as loans is maintained in the General Revenue Fund of the Province. The maximum amount disbursed in any given year is established through the annual budgeting process, which requires approval by government (note 1). Deposits provided to the Loan Board by loan applicants are also maintained in the General Revenue Fund. Financial commitments made by the Loan Board reduce the amount of this account which is available for additional loans.

	2016 $	2015 $
Board commitments (note 6)		
Loans authorized but not advanced	9,173	10,970
Applicants' funds on deposit	219	222
Funds available for additional loans	95,786	86,376
Due from General Revenue Fund of the Province	105,178	97,568

6 Commitments

The Loan Board has committed to provide loans of $9,173 (2015 - $10,970) which were approved by the Loan Board but not advanced by year-end.

7 Recoveries

	2016 Budget $ (unaudited)	2016 $	2015 $
Recovery on bad debts (notes 4 (b) and 4 (c))	–	1,055	–
Loan valuation adjustment	–	436	–
	–	1,491	–

(in thousands of dollars)

8 Lending expenses

	2016 Budget $ (unaudited)	2016 $	2015 $
Bad debt expense (net of recoveries) (notes 4 (b), 4 (c) and 7)	78	(1,491)	2,300
Interest expense (notes 9 and 10)	4,600	4,799	4,458
Other	6	12	13
Professional services	39	79	78
Travel	47	51	49
Salaries and benefits (net of recoveries)	622	638	673
Supplies and services	24	44	52
	5,416	4,132	7,623

9 Interest expense

Loans provided by the Loan Board are funded through advances from the General Revenue Fund of the Province. Interest is charged, at a fixed rate, to the Loan Board for these advances on the assumption that the funds are borrowed by the Province to lend to the Loan Board. Interest expense is calculated by the Loan Board based on loan estimates provided quarterly by the Department of Finance at the rate at which the Province could borrow funds over the next quarter. The weighted-average interest rate for the year was 4.42% (2015 – 3.98%).

10 Distributions to the General Revenue Fund of the Province

Administration expenses of the Loan Board for the year ended March 31, 2016, totalling $824 (2015 - $864), net of bad debt expense, were paid by the Department of Fisheries and Aquaculture on behalf of the Loan Board. Interest expense on funds borrowed to make loans of $4,799 (2015 - $4,458) is an expense of the Department of Finance. Accordingly, the total of these expenses are included in Distributions to the General Revenue Fund of the Province in the statement of operations and accumulated surplus.

11 Related party transactions

The Loan Board is related to all other departments, agencies, board and commissions of the Province. The General Revenue Fund of the Province is the sole source of funding for loans (note 5). Transactions with other provincial entities were entered into in the normal course of business. The Province pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses on behalf of, and with no charge to, the Loan Board.

(in thousands of dollars)

12 Pension and post-retirement benefits

All full-time employees of the Loan Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are including in the Loan Board's operating expenses. The Public Service Superannuation Fund is administered by the Public Service Superannuation Trustee Inc. and any unfunded liability, as well as other obligations related to post-retirement benefits are the responsibility of the pension plan.

13 Financial instruments and risk management

Risk management

Credit risk

The Loan Board is exposed to financial risk that arises from the credit quality of the individuals and entities to which it provides loan services. Credit risk arises from the possibility that the individuals and entities to which the Loan Board provides loan services may experience financial difficulty and be unable to fulfill their obligations.

The risk that clients may not pay amounts owing on loans, resulting in a loss to the Loan Board, is managed through an initial assessment of the client's ability to pay and by review and follow-up of delinquent accounts by loan officers. In cases in which the client is unable to make payments due to cyclical industry, or other temporary difficulties, it is the Loan Board's policy to work with clients on an individual basis to provide time for recovery. See note 4 for additional loan information.

The total performing loans as at March 31, 2016, is $100,832 (2015 - $103,914). The majority of loans are secured primarily by a first mortgage on a vessel. It is not practical to determine the maximum exposure to credit risk due to the cost associated in determining the fair value of security and collateral security on unimpaired loans.

All clients are involved in fishing and aquaculture industries in Nova Scotia. Regulations provide that loan deposits shall be a minimum of 5% of the total loan. Collateral held for security is assigned a value by a vessel inspector considering known transactions of similar vessels and condition of the vessel based on an inspection.

The Loan Board adjusts the allowance for impaired loans to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears.

Liquidity risk

The Province provides funding and cash management services to the Loan Board. There is no risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on spending authority as identified in note 1.

(in thousands of dollars)

13 Financial instruments and risk management (continued)

Risk management (continued)

Interest rate risk

In order to mitigate the risk that future changes in interest rates may affect net interest revenue, the Loan Board attempts to match terms of loans offered with those of funds drawn through the Province. The interest on loans offered and the interest on funds drawn through the Province are both at fixed rates. See note 4 for additional loan information.